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National Association of Purchasing Management

Report On Business®

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Index rises to 54.9%

Production growth up sharply

Price growth surges

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

April Report

The economy began to expand again in April, reversing the trend of the past three months, say the nation's purchasing managers in their latest **Report on Business.** Production expanded at a sharply faster rate. The new-order growth rate expanded at about the same pace as last month, setting the stage for strong production growth in May. Considering seasonal variations, vendor deliveries remained slow, mirroring strong production growth and short supplies of many items. Although employment did not change, taking normal seasonal variation into consideration, it actually decreased slightly. Inventories neither increased nor decreased after registering declines in the previous two months. Prices increased at a sharply faster rate than in March. The growth in new export orders continued to be brisk as 40% of members whose companies export said their export orders were higher in April. This percentage is the same as in March (41%) and is up from February (33%) and January (39%); only 4% said they were lower.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. Said Bretz: "The economy began the second quarter with continuing moderate growth, as purchasers had signalled it would, based on last month's strong increase in new orders. New orders remain very healthy, particularly export orders, and almost assure another modest but respectable quarter of economic growth."

The **Purchasing Managers' Index** increased to 54.9%, up from 53.3% in March, and is exactly where it was in February. April is the 21st consecutive month this leading indicator has exceeded 50%. The first four months of 1988 averaged 55.1%. Past experience indicates that, if this average were to continue for the remainder of 1988, it would be consistent with real GNP growth of about 3.4%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

April was the ninth consecutive month employment grew. Even so, the difference (+5) between those reporting higher employment (16%) and lower (11%) is the same as last month and, considering normal seasonal increases expected in April, could be viewed as representing a slight decline.

Employment	% Higher	% Same	% Lower	Net
April	16	73	11	+5
March	16	73	11	+5
February	15	73	12	+3

Buying Policy

Lead times for production materials shortened considerably, with 54% of purchasing managers reporting lead times of 30 days or less, up sharply from 47% in March. Lead times for capital expenditures were also shorter with 54% of members reporting lead times of six months or more, down somewhat from 57% in March, which was the most since February 1987 (also 57%). Lead times for maintenance, repair and operating (MRO) supplies were also somewhat less, with 84% of purchasers reporting lead times of 30 days or less, up from 81% in March, which was the lowest percentage to so report since July 1987 (also 81%).

	Percent Reporting				
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
April	15	39	21	19	6
March	14	33	24	23	6
February	13	36	28	19	4
MRO Supplies					
April	36	48	13	3	0
March	35	46	15	3	1
February	34	51	12	3	0
Capital Expenditures					
April	8	7	16	15	54
March	9	6	10	18	57
February	10	5	14	17	54

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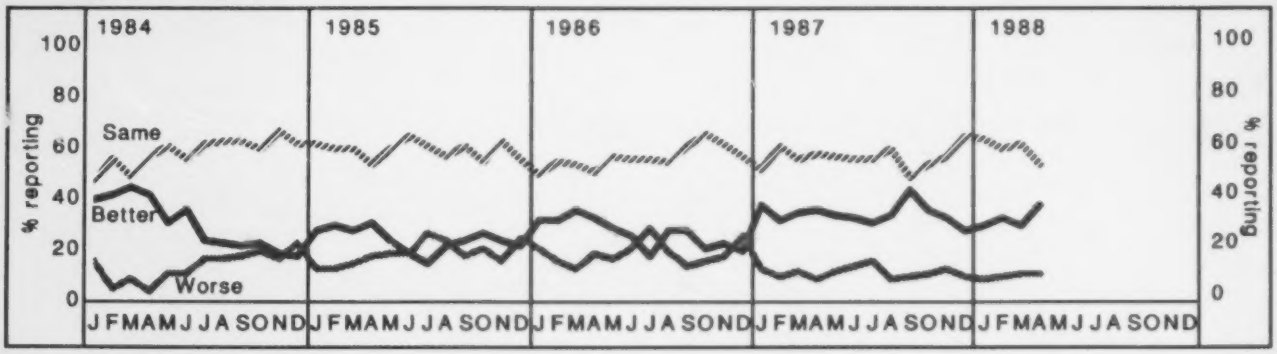
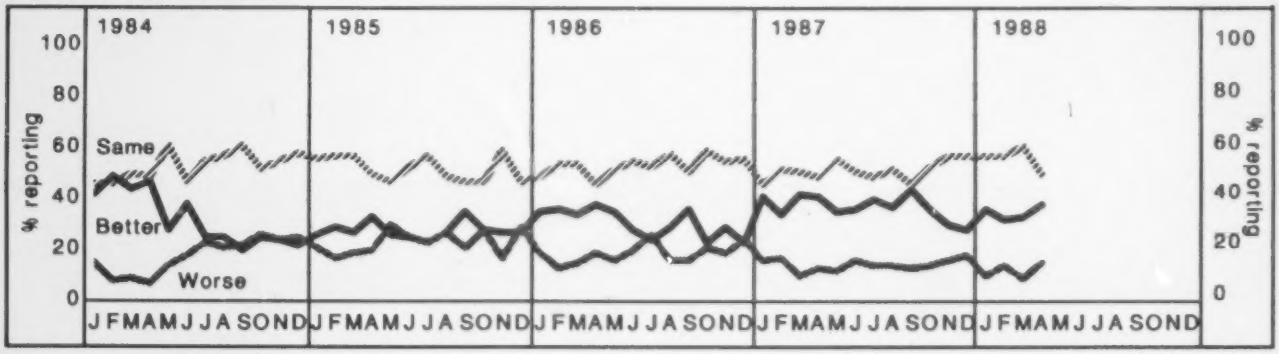
Production



Production expanded for the 16th consecutive month. As expected from last month's significant increase in new orders, the rate of growth in production increased sharply in April. The 37% reporting better production is the most since September 1987 (43%). The healthy growth rate of new orders in April will likely fuel continued production growth in May.

Production	% Better	% Same	% Worse	Net
April	37	53	10	+27
March	29	61	10	+19
February	32	59	9	+23

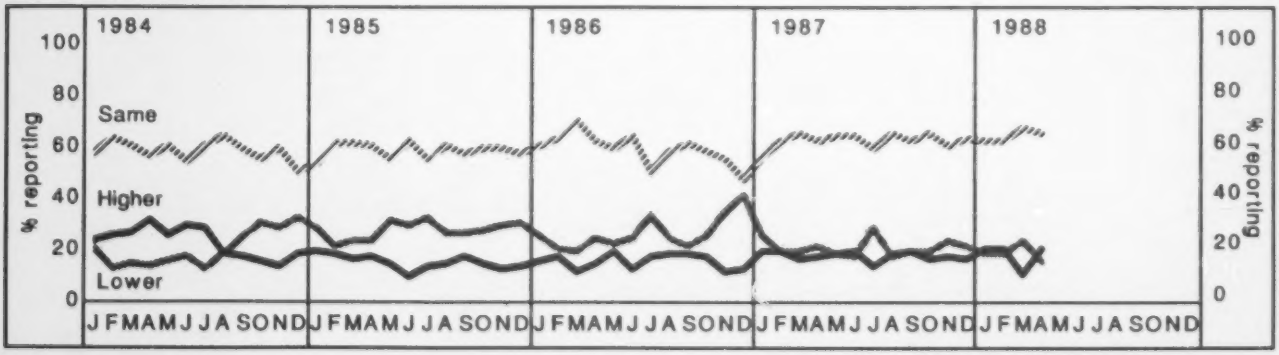
New Orders



April marked the 16th consecutive month of growth in new orders. The number of members reporting better new orders (37%) is the most since September 1987 (43%). Considering normal seasonal variations, the rate of growth is essentially about the same as in March and should all but assure continued growth in production over the next 30 to 60 days.

New Orders	% Better	% Same	% Worse	Net
April	37	49	14	+23
March	32	60	8	+24
February	31	56	13	+18

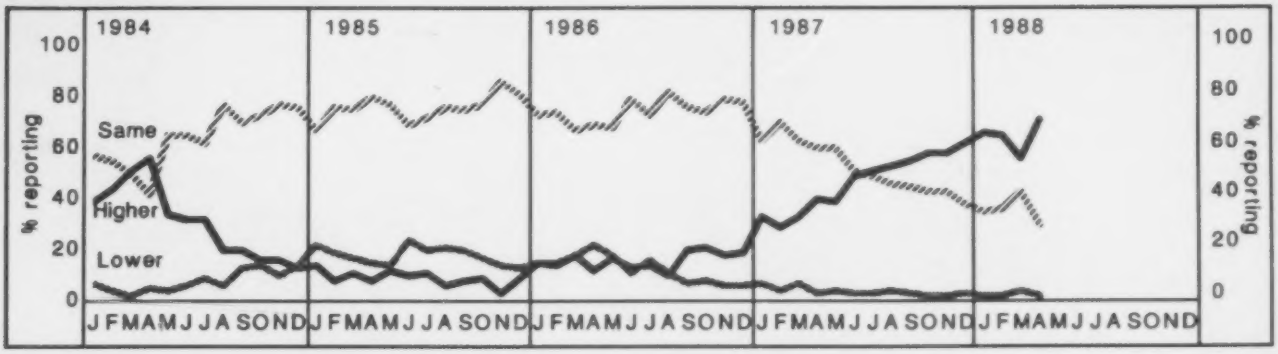
Inventories



After declining sharply last month, inventories neither increased nor decreased in April. Several purchasers selectively increased their inventories to hedge against expected future price increases or protect supplies of certain commodities in short supply.

Inventories	% Higher	% Same	% Lower	Net
April	20	65	15	+ 5
March	10	67	23	−13
February	20	62	18	+ 2

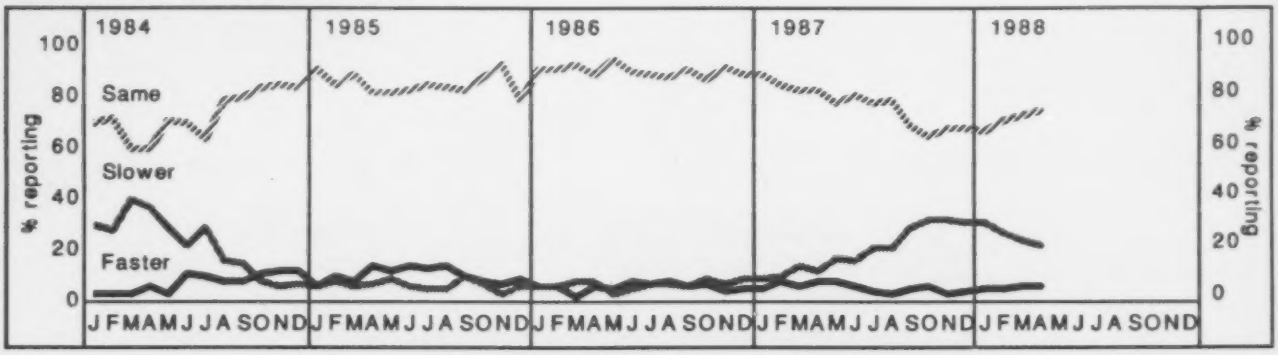
Prices



April was the 19th consecutive month more purchasers reported higher prices than lower. The signs of price plateauing noted in the past three months disappeared in April. The difference (+69) between those reporting higher prices (70%) and lower (1%) is up sharply from March (+52) and is the greatest since March 1980 (+74).

Prices	% Higher	% Same	% Lower	Net
April	70	29	1	+69
March	55	42	3	+52
February	64	35	1	+63

Vendor Deliveries



April marked the 19th consecutive month more purchasers reported slower vendor deliveries. Nevertheless, the easing in the slowing of deliveries reported over the past four months continued in April. The net difference (−16) between those reporting slower deliveries (21%) and faster (5%) is the smallest since June 1987 (−10).

Vendor Deliveries	% Faster	% Same	% Slower	Net
April	5	74	21	−16
March	5	72	23	−18
February	4	70	26	−22

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (24th time in 25 months), folding cartons (second consecutive month), printing paper (14th time in 16 months), paper products (third consecutive month), linerboard (second consecutive month; used in making corrugated shipping containers), solid bleached sulfite paperboard (used in making folding cartons), caustic soda (17th consecutive month; used heavily in paper-making, petroleum refining and soap-making), aluminum (15th consecutive month), brass (sixth consecutive month), copper (13th time in 14 months; some reports of price decreases), nickel (second consecutive month; used heavily in making stainless steel, plating metals and batteries), steel (19th time in 20 months), stainless steel (fourth consecutive month), steel products (sixth consecutive month), hot- and cold-rolled steel sheets, steel bars, steel castings (seventh consecutive month), zinc (third time in four months; used heavily in metal alloys and as a protective coating for metals), polyethylene (10th time in 11 months; used heavily in making packaging materials and paper coatings), plastic resins (10th time in 11 months), styrene (used chiefly in making synthetic rubber, plastic resins and plastic), phenol (used heavily in making phenolic resins), phenolic resin (used in making plastic products), plastic products (11th time in 12 months), ethylene oxide (used in chemical synthesis, sterilization and fumigation), ethylene (eighth time in nine months; used heavily in making ethylene oxide and plastic resins), ethylene derivatives (third consecutive month), formaldehyde (used heavily in making phenolic resins and as a disinfectant, insecticide and fumigant), methanol (fifth consecutive month; used heavily as a solvent and in synthesizing other chemicals, including formaldehyde), alcohol (used heavily in alcoholic beverages and as a chemical solvent), titanium dioxide (a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), and miscellaneous chemicals (seventh consecutive month).

DOWN IN PRICE: Fuel oil (fifth consecutive month), natural gas (third consecutive month), coal and vegetable oils (used heavily in processed foods).

IN SHORT SUPPLY: Aluminum (seventh consecutive month), copper (fifth consecutive month), nickel (second consecutive month), steel (13th time in 14 months), hot- and cold-rolled steel sheets (12th consecutive month), steel plates (ninth time in 10 months), stainless steel (fourth consecutive month), zinc, magnesium (used heavily in making light metal alloys), printing paper (second consecutive month), caustic soda (11th consecutive month), ethylene oxide (second consecutive month), ethylene, phenol, methanol (fifth consecutive month, caused primarily by a plant fire) methyl ethyl ketone (used heavily as a chemical solvent in surface coatings and in making resins), titanium dioxide (ninth consecutive month) and DRAMs, particularly 256K and 1-megabit dynamic electronic memory devices (second consecutive month; used heavily in computers).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available June 6, 1988.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee. Chair: Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, California.

At the recent API Paper Week there was considerable jubilation over the record and profitable 1987 along with the continued strong market in most grades still prevailing today. However, there was somewhat cautious optimism that this strength could continue for the balance of 1988 and almost a unanimous pessimism that 1989 would be a "disaster." Much of the cause for the 1989 "disaster" was based on a predicted recession which we all know has been predicted before and has not always materialized.

The positive side of this user-supported profitability is that the paper industry is expected to spend $11.58 billion in capital improvements in 1988, which is a 24.7% increase over 1987 levels. Only if capacity outpaces consumption, or imports rise dramatically, can we expect relief from the rapidly escalating prices.

Newsprint: Starting in 1989 and 1990, capacity is expected to jump almost 12% in the U.S. The newsprint market still remains tight; expectations are that it will remain this way throughout 1988. Prices increased on January 1 and further increases anticipated this fall.

Uncoated Groundwood: Supply is tight. Mills have announced a second price increase in as many quarters. Lead times are long and no relief is expected until new newsprint machines come on and swing machines re-enter producing this grade. Lead times are 75 days or more with frequent late shipments. There may be a further increase of perhaps $60 per ton in the fall. Mills are already trying to line up 1989 commitments.

Coated Groundwood: The coated groundwood section of the coated paper market is probably the tightest currently and no new capacity is planned until late 1989. There were two price increases in 1987 and at least one is expected in 1988. This grade is currently on allocation with lead times of 30 to 60 days.

Uncoated Free Sheet: Consumption is expected to outpace the increase of the GNP for at least two more years. Prices in the form bond segment are up 21.6% in the past eight months. There is a strong possibility of another increase yet this year.

This commodity should remain extremely tight until late 1988 when significant new capacity starts up in the U.S. and Canada. Further additions are scheduled for 1989; one forecast predicts operating rates will drop from approximately 96% in 1988 to 93% in 1989.

We hear mixed comments regarding additional increases this year but it looks like most expect another price increase within the next six months.

Coated Free Sheet: Although there is no expected increase in coated groundwood, there are two new machines coming on line this year in coated free. Availability runs from three to eight weeks and is "balanced" and on allocation. Most expect that current conditions will remain through the year. All indicate that prices are rising but don't expect any more increases this year.

Bleached Bristols: This is probably the one grade that is not on allocation and is generally available. Lead times are running from four to six weeks. Availability should remain about the same for the next six months. Only very moderate capacity increases are projected. All except one report increasing prices effective in the second quarter. Most anticipate a second increase later in the year.

Paperboard/Linerboard: Linerboard has been very strong with operating rates at 96%. A March 1 price increase likely will stick through 1988. Some incremental capacity increases will occur over the next 12 months. In addition, there is available swing capacity from heavy weight and sack paper. SBS grades are very tight primarily because much of the mill capacity can produce either pulp or board and exports are strong. We anticipate that this condition will remain for another six months. Recycled grades have "unprecedented backlogs." We also saw a first-quarter price increase. No capacity increase on recycled or SBS grades is expected. April and May prices are up on all board grades except recycled. Expected that recycled might move around midyear.

Pulp: The latest pulp increase on April 1 was the 10th consecutive increase for export and the ninth consecutive increase for domestic pulp prices. In January 1986, the pulp price was $370 a metric ton; as of April 1988 the price stood at $700 a metric ton, plus an additional $25 for export. The scary part is that wood pulp capacity is increasing slower than paper and paperboard. It is projected that there will only be a 1.9% annual pulp capacity increase over the next three years with market pulp share being only 1.1%. The only good part of this for those of us who sell waste paper is that demand (and thus prices) will also increase. 1987 total U.S. pulp production of market pulp reached 8.2 million tons.

To summarize, things don't look too bright now but there is light at the end of the tunnel late this year and into 1989. Hang in there and do the best you can until the pendulum swings the other way!

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee. Chair: Carl D. Dirkse, C.P.M., S.C. Johnson & Sons, Inc., Racine, Wisconsin.

The packaging industry continues to be a seller's market. Price increases are rampant and tightness of supply is being felt in many markets. Both the export and domestic markets are very strong.

U.S. paperboard production was up 5% in 1987 over 1986, which also was a very strong year. Paperboard production is currently running at 3% above its year-earlier pace. It is estimated that the linerboard industry is running at 99% of capacity. There is only one new linerboard machine planned, which will not start up until 1990.

Beyond the supply and price issues, the number-one concern in the packaging industry is the trend to restrict or tax packaging due to disposal problems. In addition to state legislation, the U.S. Congress is now looking at the problem. Eight bills dealing with plastics have been introduced in Congress so far.

Metal Cans: This industry basically has adequate supply with stable pricing. However, some members report price increases due to steel increases. A few members report some tightness of supply.

Fibre Cans: Supply is adequate. Some price increases are reported due to price increases in board stock.

Glass: Lead times are extending in the glass container industry. Overall capacity appears to be adequate, however. A few members report price increases. Business continues to be lost to plastic. The Glass Packaging Institute has declared its support of comprehensive curbside recycling as a way of curbing the nation's growing solid-waste problem.

Molded Plastics: This industry is driven by what happens to resins. Price increases continue unabated. Resin supply is so tight that some vendors are putting customers on allocation and are accepting no new customers. Exports of resins are very strong. No near-term relief is seen.

Five resin producers and four blow molders have formed NAPCOR (National Association for Plastic Container Recovery). NAPCOR will work on collection problems involved with recycling plastic bottles and encourage recycling without mandatory deposit laws.

Coca-Cola has announced the world's first returnable, refillable PET soft-bottle in Germany. The future of the bottle in the U.S. is uncertain.

Films: Films are also being influenced by plastic resins. Price increases on resins are being passed along. Lead times are lengthening due to short resin supplies.

Laminated Stock: This industry is being hit by shortages and price increases in plastic resins and aluminum foil. As a result, prices are increasing, lead times are lengthening and some tightness of supply is being experienced.

Metal Drums: Supply is adequate, but after several years of stable or decreasing prices, price increases are now being reported. This is primarily due to steel increases.

Fibre Drums: This industry is characterized by stable prices and adequate supply. However, a few members report price increases. This is probably due to board increases.

Folding Cartons: Supply is generally adequate but prices continue to increase. Both SBS and CCNB board increased in price. Exports of board are strong.

Corrugated: At the time of this writing, the Yellow Sheet is reporting a price of $410 per ton for 42 lb. linerboard. However, members are in disagreement as to whether this increase will stick and whether converters will be successful in passing it through to customers. Some members even talk of decreases in the third or fourth quarter.

Bags: Supply of paper bags is adequate, but prices are increasing due to increasing costs of paper. Prices are also increasing on plastic bags due to increased resin prices. Resin problems have also caused some tightness of supply. Safeway in Canada has announced a new plastic bag made from Ecolyte which is photodegradable. The Ecolyte content reacts with the sun's rays and causes a molecular breakdown of the film within a controlled time.